

# FINANCIAL MANAGEMENT SYSTEMS



**REGION 3 FISCAL FORUM  
ATLANTA, GEORGIA  
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# Financial Management Systems

Budget Controls  
Cash Management  
Program Income  
Cost Allocation  
Allowable Cost  
Internal Controls  
Financial Reporting

# Financial Management Systems

- Administrative rules
  - Use and protection of grant funds
- Provide framework
  - More effective use of funds
  - More efficient operations
  - Safeguard against misuse of funds

# Financial Systems – States

- **Use own systems, provided**
  - **Prepare Federal required reports**
  - **Permit tracing to source documents**
- **Only if State procedures do not conflict with**
  - **Authorizing statute and regulations**
  - **Other Federal administration requirements**
- **29 CFR 97.20(a)**



# Budget Controls

## Purpose

- To ensure obligations do not exceed availability
- To ensure organizations submit budget modifications
- To ensure organizations manage both their overall budget and individual budget line items

The background of the slide features a close-up, grayscale image of several US coins, including quarters and pennies, which are slightly out of focus.

# Budget Controls

Expenditures must be compared to budgeted amounts on a periodic basis. This comparison includes:

- relating financial information to performance data, such as cost/participant data, to ensure grant spending occurs at a rate that is consistent with the amounts budgeted through the most recent quarter being reviewed.

A close-up, grayscale image of several coins, likely US quarters, showing the profile of George Washington and the word 'LIBERTY'.

# Budget Controls

## Budget Controls

- Comparison of actual outlays to plans
- Compliance with line-item requirements
- Preclude overspending

A grayscale background image showing a close-up of several coins, likely US quarters, with their intricate designs and the word "QUARTER" visible on some.

# Allowable Costs

An organization must have a system to ensure it is incurring necessary, reasonable, and allowable costs to the grant.



# Allocable Costs

A cost is allocable if its treated consistently with other costs incurred for the same purpose in like circumstances and:

- Is incurred specifically for the award; or
- Benefits more than one cost objective but can be shared proportionately based on relative benefit received; or
- It is necessary for the overall operation but a direct relationship to a particular cost objective can not be shown.

# Allowability Criteria

- Allocable to the award
- Necessary & reasonable
- Treated consistently
- In accordance with GAAP
- Net of applicable credits
- Not used as match
- Adequately documented
- Authorized/not prohibited
- Limited or exclusions
- Consistent with the rules

# Allowable Cost Exercise

In small groups, classify the following costs as allowable, unallowable, or allowable with conditions:

- Grantee donates items to a local zoo and used its grant funds to transport the items to the zoo
- Grantee paid participant's speeding ticket
- Salaries for the county Board of Supervisors
- Annual organization-wide audit conducted by local CPA firm

# Allowable Costs

- OMB Circular A-87
  - Attachment A, General Principles for Determining Allowability of Costs
    - ?(C)(1-4)
- OMB Circular A-122
  - Attachment A, General Principles
    - ?(A)(2-5)
- OMB Circular A-21
  - Attachment C, Basic considerations
    - ?(2-5)
- 48 CFR Part 31
  - 31.201-1 through 31.201-5, General

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# Financial Reporting

Accrual basis reporting – why it is so critical

- OIG report
- Understated expenditures
  - Increase likelihood of loss of funds
  - Recapture and reallocation



# Financial Reporting

## The OIG Report

- Obligations were generally overstated
  - 5 out of 10 States did not require obligations reporting
  - Inconsistent reporting of obligations
- Expenditures were under reported
  - 6 of 10 States reviewed



# Reporting

- Financial Reporting
  - Systems must permit preparation of Federal financial reports
  - Reports must be made on accrual basis
- Accounting Records
  - Adequately identify grant funds
  - Awards, obligations, assets, liabilities, income, and expenditures
  - Must be maintained in accordance with GAAP

# More Requirements

- Funds deposited in minority/women owned banks
- Insured, interest-bearing account (Part 95 only)
- Interest remitted as required by regulations
  - WIA interest earnings–program income





# Interest Earnings Non-WIA

## Governmental Grantees

- 29 CFR 97.21(i)
- Quarterly remittance to DHHS/PMS
- Retain \$100 per year for expenses
- States governed by Treasury-State Agreement



# Interest Earnings Non-WIA

## Non-Governmental Grantees

- 29 CFR 95.22(i)
- Annual remittance to DHHS/PMS
- Retain \$250 per year for expenses

# Cash Management - States

- Direct Grantees
  - Governmental – 29 CFR 97.21
  - Non-Governmental – 29 CFR 95.22
- Subgrantees
  - Follow Parts 95 & 97 as applicable



# Requirements

- Both Parts 95 & 97
  - Minimize time – receipt & disbursement
  - Payment in advance
    - Stipulations
- Reimbursement Method
  - If non-compliance with requirements



# Internal Controls

- Internal Controls

- System to protect integrity of funds
- Accountability for cash, property, and other assets

# Other Governmental Grantees Financial Systems

- Local and Indian tribal governments
- 29 CFR 97.20(b)
  - 7 separate standards
  - Awarding agency right of review
  - Documented process

# Non-Governmental Grantees

- 29 CFR 95.12(a)
  - Relate financial results to program performance
- Applies to commercial organizations also
- 29 CFR 95.21 (b)
  - Same 7 standards as Part 97
  - Minor variances in language